2011 REGULAR SESSION
ACTUARIAL NOTE HB 213

House Bill 213 HLS 11RS-681 Enrolled **Author: Representative Jean M. Doerge** **Date: June 20, 2011** **LLA Note HB 213.03** **Organizations Affected:** **Municipal Police Employees' Retirement System** **EN DECREASE FC SG EX**	**The Note was prepared by the Actuarial Services Department of the Office of the Legislative Auditor.** **Paul T. Richmond, ASA, MAAA, EA** **Manager Actuarial Services**

Bill Header: RETIREMENT/MUNICIPAL POL: Requires the repayment of refunds prior to approval of disability retirement.

Cost Summary:

Actuarial Cost/(Savings) to Retirement Systems and OGB	Actuarial Savings
Total Five Year Fiscal Cost	
Expenditures	Decrease
Revenues	Increase

Estimated Actuarial Impact:

The chart below shows the estimated increase/(decrease) in the actuarial value of benefits, if any, attributable to the proposed legislation. Note: it includes the present value cost of fiscal costs associated with benefit changes. It does **not** include present value costs associated with administration or other fiscal concerns.

Actuarial Cost (Savings) to:	**Increase (Decrease) in The Actuarial Present Value**
All Louisiana Public Retirement Systems	Actuarial Savings
Other Post Retirement Benefits	Actuarial Savings
Total	Actuarial Savings

Estimated Fiscal Impact:

The chart below shows the estimated fiscal impact of the proposed legislation. This represents the effect on cash flows for government entities including the retirement systems and the Office of Group Benefits.

EXPENDITURES	**2011-12**	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**5 Year Total**
State General Fund	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Agy Self Generated	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease
Stat Deds/Other	0	0	0	0	0	0
Federal Funds	0	0	0	0	0	0
Local Funds	0	0	Decrease	Decrease	Decrease	Decrease
Annual Total	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease

REVENUES	**2011-12**	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**5 Year Total**
State General Fund	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Agy Self Generated	Increase	Increase	Increase	Increase	Increase	Increase
Stat Deds/Other	0	0	0	0	0	0
Federal Funds	0	0	0	0	0	0
Local Funds	0	0	0	0	0	0
Annual Total	Increase	Increase	Increase	Increase	Increase	Increase

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<u>Bill Information:</u>

Current Law

Under current law, a member of Municipal Police Employees' Retirement System (MPERS) is entitled to receive a disability pension if he is certified to be totally and permanently disabled by the State Medical Disability Board. If he has less than 10 years of service, he may receive a disability pension only if the disability occurred within the line of duty. If he has 10 or more years of service, he may receive a disability pension regardless of whether or not the disability occurred within the line of duty.

The disability benefit formula, applicable until the member attains normal retirement age, depends on length of service with a minimum benefit and a maximum benefit. The benefit formula is summarized below.

Service	Disability Benefit Formula
Less than 13 1/3 years	Benefit = 40% x FAC
More than 13 1/3 years but less than 20 years	Benefit = [40% + 3% x (Service – 13 1/3 years)] x FAC
More than 20 years	Benefit = 60% x FAC

Once a member receiving a disability pension attains normal retirement age, he may collect his normal retirement benefit is it will provide him with a larger benefit. Normal retirement benefits are summarized below.

Service	Normal Benefit Formula
Less than 12 years	Normal benefits are not available
12or more years but less than 20 years	Benefit = 3 1/3% x Service x FAC; benefit is payable as early as age 55.
20 or more years but less than 25 years	Benefit = 3 1/3% x Service x FAC; benefit is payable as early as age 50.

Note: if a member had 25 or more years of service at the time of disability, he will collect a normal retirement benefit based on an accrual rate of 3 1/3% per year of service. He does not need to prove that he is totally and permanently disabled.

Under current law, the board of trustees for MPERS may not approve any disability benefit until all employee and employer contributions through the date of termination of employment have been paid, and received by MPERS.

Under current law, a former member who is reemployed in a position that requires membership in MPERS may receive credit for his prior service after 18 months of reemployment. To obtain such prior service credit, the member must repay employee contributions refunded to him plus interest using the valuation interest rate (but not less than 5.0% per annum) in effect at the time of repayment.

Proposed Law

Proposed law provides that the board of trustees may not approve any disability benefit until all prior service credits have been restored to the member and all previously refunded employee contributions have been repaid by the member with interest from the refund dates to the date of restoration of service credits.

Implications of the Proposed Changes

Under HB 213, any member of MPERS who become disabled will be required to repay all prior refunds of employee contributions made to him. A member who repays will receive credit for his prior service and will potentially receive a larger disability pension benefit. Any member who elects not to repay will not be eligible to retire for disability.

<u>Cost Analysis:</u>

Analysis of Actuarial Costs

Retirement Systems

The actuarial cost associated with HB 213 depends on whether repayment will increase an employee's disability pension and upon the financial ability of a disabled member to repay the contribution refunds received.

Member Repays but Repayment Does Not Produce a Larger Benefit

This situation will occur for members who become disabled with less than 12 years of total service after repayment has been made. This is because additional years of service do not increase disability benefits until after an employee has over 12 years of service. In this case, MPERS will receive repayments from the member but will not pay any additional benefit. HB 213 will have a positive financial effect on MPERS.

Member Repays and Repayment Produces a Larger Benefit

This situation will occur for members who become disabled with 12 or more years of total service after repayment has been made, but less than 25 years. In this case, MPERS will receive repayments from the member but will be required to pay a larger benefit to the member either at disability retirement or at normal retirement age. HB 213 will have a negative financial effect on MPERS because we assume the value of the additional benefit, in most cases, will be greater than the value of the repayment by the member.

A member currently has the option to repay his refund and acquire his prior service. HB 213 will mandate such repayment and service crediting. Therefore, actuarial losses will occur for MPERS to the extent that some members will be forced to repay who otherwise would not have but for HB 213.

Member Does Not Repay Because He Cannot Afford the Payment

In general, the value of a members disability pension benefit will be significantly larger than the repayment value. Nevertheless, a member may not have the resources to come up with the repayment amount. In this case, the member sustains a substantial loss as a result of HB 213. MPERS sustains a significant gain because it doesn't have to pay a disability benefit to the member even though he might have otherwise (without the repayment) have been eligible for a disability pension.

Although MPERS will gain under some circumstance from enactment of HB 213, in other situations it will lose. Nevertheless, it appears than MPERS will incur more gains under HB 213 than it will losses. Therefore, HB 213 is expected to produce actuarial savings.

Other Post Retirement Benefits

We estimate that HB 213 will produce actuarial savings relative to post-retirement benefits other than pensions. This savings will occur for any member who cannot retire because he could not afford or elected not to repay employee contributions refunded to him.

Analysis of Fiscal Costs

HB 213 will have the following effect on fiscal costs during the 5 year measurement period.

Expenditures:

1. Benefit payments from MPERS are expected to increase to the extent that a disabled member is required to purchase prior service credits and is entitled to a larger benefit. Benefit payments from MPERS are expected to decrease to the extent that a disabled member cannot or elects not to repay employee contributions and as a result does not collect a disability pension. We estimate that the net effect on MPERS will be a decrease in benefit payments (a decrease in expenditures from Agy Self Generated funds).

2. Expenditures from Local Funds will decease because we expect HB 213 to produce actuarial savings. These savings will produce a decrease in the employer contribution rate for the 2013-14.

Revenues:

- MPERS revenues (Agy Self Generated) will increase due to repayments of employee contribution refunds. MPERS revenues (Agy Self Generated revenues) will decrease because employer contributions will decrease. The net effect over the five year measurement period is estimated to be an increase in revenues.

Although we expect HB 213 to produce a reduction in expenditures, and an increase in revenues, we also expect these changes to be quite small. The overall effect will be savings that are negligible.

<u>Actuarial Credentials:</u>

Paul T. Richmond is the Manager of Actuarial Services for the Louisiana Legislative Auditor. He is an Enrolled Actuary, a member of the American Academy of Actuaries, a member of the Society of Actuaries and has met the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

<u>Dual Referral:</u>

<u>Senate</u>	**<u>House</u>**
☐ 13.5.1 ≥ \$100,000 Annual Fiscal Cost	☐ 6.8(F)(1) ≥ \$500,000 Annual Fiscal Cost
☐ 13.5.2 ≥ \$500,000 Annual Tax or Fee Change	☐ 6.8(F)(2) ≥ \$100,000 Annual SGF Fiscal Cost
	☐ 6.8(G) ≥ \$500,000 Annual Tax or Fee Change